

HAMBURG COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

## Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Net Assets	H 20
Statement of Cash Flows	I 21
Notes to Basic Financial Statements	22-32
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	33
Notes to Required Supplementary Information - Budgetary Reporting	34
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 37
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4 38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39-40
Schedule of Findings	41-45

Hamburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 Election)</b>		
Jim Lechner	President	2005
Pat Carlock	Vice President	2006
Greg Warden	Board Member	2007
Bill Green	Board Member	2007
William Barrett	Board Member	2005
<b>Board of Education (After September 2005 Election)</b>		
Bill Green	President	2007
Greg Warden	Vice President	2007
Pat Carlock	Board Member	2006
Mary Ann Gregg	Board Member	2008
Charles Dovel	Board Member	2008
<b>School Officials</b>		
Dr. Paul Sellon	Superintendent	2006
Carrie Stoner	Board Secretary/ District Treasurer	2006
Gruhn Law Firm	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Hamburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hamburg Community School District, Hamburg, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

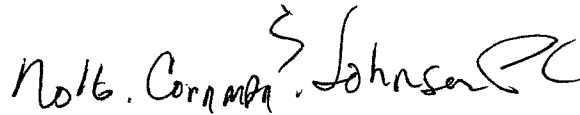
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hamburg Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2006 on our consideration of the Hamburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hamburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

July 26, 2006

---

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Hamburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,863,918 in fiscal 2005 to \$2,562,777 in fiscal 2006, while General Fund expenditures increased from \$2,607,327 in fiscal 2005 to \$2,758,778 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$483,095 in fiscal 2005 to a balance of \$287,094 in fiscal 2006, a 40.57% decrease from the prior year.
- The decrease in General Fund revenues was attributable to the donation received prior year from the Bunker inheritance in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, restricted grant expenditures and Bunker inheritance donation expenditures.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$22,929 in fiscal year 2005 to \$50,944 in fiscal year 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hamburg Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hamburg Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hamburg Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Hamburg Community School District Annual Financial Report**

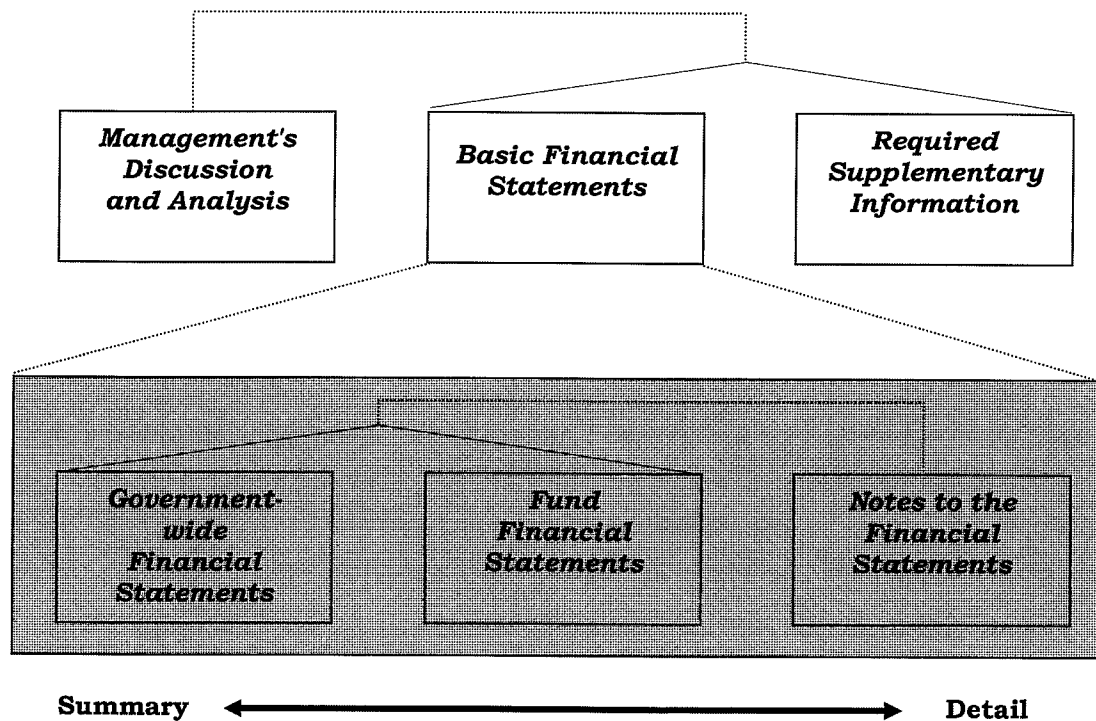


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



---

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Capital Projects Fund and Special Revenue Funds.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,008,504	3,034,124	75,588	74,220	3,084,092	3,108,344	-0.78%
Capital assets	1,029,391	1,044,165	18,930	14,587	1,048,321	1,058,752	-0.99%
Total assets	4,037,895	4,078,289	94,518	88,807	4,132,413	4,167,096	-0.83%
Long-term obligations	147,826	211,223	0	0	147,826	211,223	-30.01%
Other liabilities	2,112,204	2,126,396	34,037	15,638	2,146,241	2,142,034	0.20%
Total liabilities	2,260,030	2,337,619	34,037	15,638	2,294,067	2,353,257	-2.52%
Net assets:							
Invested in capital assets, net of related debt	1,029,391	1,044,165	18,930	14,587	1,048,321	1,058,752	-0.99%
Restricted	538,530	342,231	0	0	538,530	342,231	57.36%
Unrestricted	209,944	354,274	41,551	58,582	251,495	412,856	-39.08%
Total net assets	\$ 1,777,865	1,740,670	60,481	73,169	1,838,346	1,813,839	1.35%

The District's combined net assets increased by 1.35%, or \$24,507, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$196,299, or 57.36% over the prior year. The increase was primarily a result of the District's increase in the Physical Plant and Equipment Levy Fund and Capital Projects Fund balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$161,361, or 39.08%. This decrease in unrestricted net assets was primarily a result the District spending a portion of the Bunker Inheritance Donation of \$152,559, with a remaining balance of \$49,523 at June 30, 2006.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 152,261	299,342	43,267	40,941	195,528	340,283	-42.54%
Operating grants and contributions and restricted interest	316,140	453,382	97,609	102,998	413,749	556,380	-25.64%
General revenues:							
Property tax	1,236,063	1,279,547	0	0	1,236,063	1,279,547	-3.40%
Local option sales and services tax	165,556	164,489	0	0	165,556	164,489	0.65%
Unrestricted state grants	1,073,700	1,084,905	0	0	1,073,700	1,084,905	-1.03%
Other	58,926	32,756	191	159	59,117	32,915	79.61%
Total revenues	3,002,646	3,314,421	141,067	144,098	3,143,713	3,458,519	-9.10%
Program expenses:							
Governmental activities:							
Instructional	1,835,357	1,716,239	0	0	1,835,357	1,716,239	6.94%
Support services	955,276	976,904	8,423	0	963,699	976,904	-1.35%
Non-instructional programs	0	7,800	152,395	131,775	152,395	139,575	9.19%
Other expenditures	174,818	209,606	0	0	174,818	209,606	-16.60%
Total expenses	2,965,451	2,910,549	160,818	131,775	3,126,269	3,042,324	2.76%
Changes in net assets before capital contributions	37,195	403,872	(19,751)	12,323	17,444	416,195	-95.81%
Capital contributions	0	0	7,063	0	7,063	0	100.00%
Changes in net assets	37,195	403,872	(12,688)	12,323	24,507	416,195	-94.11%
Beginning net assets	1,740,670	1,336,798	73,169	60,846	1,813,839	1,397,644	29.78%
Ending net assets	\$ 1,777,865	1,740,670	60,481	73,169	1,838,346	1,813,839	1.35%

Property tax, local option sales and services tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$3,002,646 and expenses were \$2,965,451.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,835,357	1,458,745
Support services	955,276	955,276
Other expenditures	174,818	83,029
Totals	<u>\$ 2,965,451</u>	<u>2,497,050</u>

- The cost financed by users of the District's programs was \$152,261.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$316,140.
- The net cost of governmental activities was financed with \$1,236,063 in property tax, \$165,556 in local option sales and services tax, \$1,073,700 in state foundation aid, \$51,747 in interest income and \$7,179 as miscellaneous income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$141,067 and expenses were \$160,818. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Hamburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$896,300, above last year's ending fund balances of \$891,847. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to controlled spending in the Physical Plant and Equipment Levy Fund and Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position from \$483,095 to \$287,094 is the product of many factors:
  - Increases in state aid, federal grants and tax levied during the year were offset by a decrease in donations due to the Bunker Inheritance received in the previous year resulting in a decrease in revenues.
  - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures. The District also spent down the balance restricted by the board from the Bunker Donation.
  - The decrease in revenues and the increase in expenditures resulted in a net decrease of \$196,001.
- The Physical Plant and Equipment Levy Fund balance increased from \$79,748 in fiscal 2005 to \$196,023 in fiscal 2006. This is due to decreased expenditures made during the year.

- The Capital Projects Fund balance increased from \$127,066 in fiscal 2005 to \$217,901 in fiscal 2006. This is due to decreased expenditures made during the year due to less capital improvements.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$73,169 at June 30, 2005 to \$60,481 at June 30, 2006, representing a decrease of 17.34%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$9,389 less than budgeted revenues, a variance of .29%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$1,048,321, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$112,060.

The original cost of the District's capital assets was \$3.35 million. Governmental funds account for \$3.30 million with the remainder of \$0.05 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$158,419 at June 30, 2006, compared to \$187,881 reported at June 30, 2005. This decrease resulted from current depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 42,707	42,707	0	0	42,707	42,707	0.00%
Buildings	766,740	741,281	0	0	766,740	741,281	3.32%
Land improvements	80,455	86,883	0	0	80,455	86,883	-7.99%
Machinery and equipment	139,489	173,294	18,930	14,587	158,419	187,881	-18.60%
Total	\$ 1,029,391	1,044,165	18,930	14,587	1,048,321	1,058,752	-1.00%

---

## Long-Term Debt

At June 30, 2006, the District had \$147,826 in other long-term debt outstanding. This represents a decrease of 30.0% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$147,826 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
Early retirement	\$ 147,826	183,046	-19.2%
State aid overpayment	0	28,177	-100.0%
Total	<u>\$ 147,826</u>	<u>211,223</u>	<u>-30.0%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Ann Smith, Board Secretary, Hamburg Community School District, 105 E Street, Hamburg, Iowa, 51640.

## BASIC FINANCIAL STATEMENTS

HAMBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 657,426	0	657,426
Other	1,086,373	72,493	1,158,866
Receivables:			
Property tax:			
Delinquent	22,219	0	22,219
Succeeding year	1,162,856	0	1,162,856
Interfund	32,333	0	32,333
Accrued ISCAP interest(Note 4)	9,796	0	9,796
Accounts	962	2,091	3,053
Due from other governments	36,539	0	36,539
Inventories	0	1,004	1,004
Capital assets, net of accumulated depreciation(Note 5)	1,029,391	18,930	1,048,321
<b>TOTAL ASSETS</b>	<b>4,037,895</b>	<b>94,518</b>	<b>4,132,413</b>
<b>LIABILITIES</b>			
Interfund payable	0	32,333	32,333
Accounts payable	29,938	1,340	31,278
Salaries and benefits payable	250,583	364	250,947
ISCAP warrants payable(Note 4)	656,000	0	656,000
ISCAP interest payable(Note 4)	8,489	0	8,489
ISCAP unamortized premiums payable	4,338	0	4,338
Deferred revenue:			
Succeeding year property tax	1,162,856	0	1,162,856
Long-term liabilities(Note 6):			
Portion due within one year:			
Early retirement payable	25,322	0	25,322
Portion due after one year:			
Early retirement payable	122,504	0	122,504
<b>TOTAL LIABILITIES</b>	<b>2,260,030</b>	<b>34,037</b>	<b>2,294,067</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,029,391	18,930	1,048,321
Restricted for:			
Talented and gifted	11,332	0	11,332
Salary improvement program	160	0	160
Capital projects	217,901	0	217,901
Physical plant and equipment levy	196,023	0	196,023
Other special revenue purposes	113,114	0	113,114
Unrestricted	209,944	41,551	251,495
<b>TOTAL NET ASSETS</b>	<b>\$ 1,777,865</b>	<b>60,481</b>	<b>1,838,346</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



HAMBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,166,008	78,697	206,560	(880,751)	0	(880,751)
Special instruction	333,312	0	17,791	(315,521)	0	(315,521)
Other instruction	336,037	73,564	0	(262,473)	0	(262,473)
	<u>1,835,357</u>	<u>152,261</u>	<u>224,351</u>	<u>(1,458,745)</u>	<u>0</u>	<u>(1,458,745)</u>
Support services:						
Student services	80,912	0	0	(80,912)	0	(80,912)
Instructional staff services	42,643	0	0	(42,643)	0	(42,643)
Administration services	437,552	0	0	(437,552)	0	(437,552)
Operation and maintenance of plant services	280,156	0	0	(280,156)	0	(280,156)
Transportation services	114,013	0	0	(114,013)	0	(114,013)
	<u>955,276</u>	<u>0</u>	<u>0</u>	<u>(955,276)</u>	<u>0</u>	<u>(955,276)</u>
Other expenditures:						
Facilities acquisitions	24,924	0	0	(24,924)	0	(24,924)
AEA flowthrough	91,789	0	91,789	0	0	0
Depreciation(unallocated) *	58,105	0	0	(58,105)	0	(58,105)
	<u>174,818</u>	<u>0</u>	<u>91,789</u>	<u>(83,029)</u>	<u>0</u>	<u>(83,029)</u>
Total governmental activities	2,965,451	152,261	316,140	(2,497,050)	0	(2,497,050)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	8,423	0	0	0	(8,423)	(8,423)
Non-instructional programs:						
Nutrition services	152,395	43,267	97,609	0	(11,519)	(11,519)
Total business-type activities	<u>160,818</u>	<u>43,267</u>	<u>97,609</u>	<u>0</u>	<u>(19,942)</u>	<u>(19,942)</u>
Total	<u>\$ 3,126,269</u>	<u>195,528</u>	<u>413,749</u>	<u>(2,497,050)</u>	<u>(19,942)</u>	<u>(2,516,992)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,082,874	0	1,082,874
Capital outlay				153,189	0	153,189
Local option sales and services tax				165,556	0	165,556
Unrestricted state grants				1,073,700	0	1,073,700
Unrestricted investment earnings				51,747	191	51,938
Miscellaneous				7,179	0	7,179
Total general revenues				<u>2,534,245</u>	<u>191</u>	<u>2,534,436</u>
Changes in net assets before capital contributions				37,195	(19,751)	17,444
Capital contributions				0	7,063	7,063
Changes in net assets				37,195	(12,688)	24,507
Net assets beginning of year				1,740,670	73,169	1,813,839
Net assets end of year				<u>\$ 1,777,865</u>	<u>60,481</u>	<u>1,838,346</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 657,426	0	0	0	657,426
Other	500,407	196,282	195,186	194,498	1,086,373
Receivables:					
Property tax:					
Delinquent	18,338	2,509	0	1,372	22,219
Succeeding year	991,062	151,794	0	20,000	1,162,856
Interfund	23,399	0	9,909	0	33,308
Accrued ISCAP interest(Note 4)	9,796	0	0	0	9,796
Accounts	726	0	0	236	962
Due from other governments	23,733	0	12,806	0	36,539
<b>TOTAL ASSETS</b>	<b>\$ 2,224,887</b>	<b>350,585</b>	<b>217,901</b>	<b>216,106</b>	<b>3,009,479</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Interfund payable	\$ 975	0	0	0	975
Accounts payable	26,346	2,768	0	824	29,938
Salaries and benefits payable	250,583	0	0	0	250,583
ISCAP warrants payable(Note 4)	656,000	0	0	0	656,000
ISCAP interest payable(Note 4)	8,489	0	0	0	8,489
ISCAP unamortized premiums payable	4,338	0	0	0	4,338
Deferred revenue:					
Succeeding year property tax	991,062	151,794	0	20,000	1,162,856
Total liabilities	1,937,793	154,562	0	20,824	2,113,179
Fund balances:					
Reserved for:					
Talented and gifted	11,332	0	0	0	11,332
Salary improvement program	160	0	0	0	160
Unreserved:					
Designated:					
Designated for special purposes by the board(Bunker Donation)	49,523	0	0	0	49,523
Undesignated:					
General	226,079	0	0	0	226,079
Physical plant and equipment levy	0	196,023	0	0	196,023
Capital projects	0	0	217,901	0	217,901
Management levy	0	0	0	82,168	82,168
Other special revenue purposes	0	0	0	113,114	113,114
Total fund balances	287,094	196,023	217,901	195,282	896,300
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,224,887</b>	<b>350,585</b>	<b>217,901</b>	<b>216,106</b>	<b>3,009,479</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 896,300
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,029,391
Long-term liabilities, including early retirement payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(147,826)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 1,777,865</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,042,024	153,189	165,556	74,975	1,435,744
Tuition	75,210	0	0	0	75,210
Other	60,376	1,789	339	78,146	140,650
State sources	1,285,828	0	0	0	1,285,828
Federal sources	99,339	0	0	0	99,339
Total revenues	2,562,777	154,978	165,895	153,121	3,036,771
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	1,191,690	0	0	31,866	1,223,556
Special instruction	329,945	0	0	0	329,945
Other instruction	263,511	0	0	71,615	335,126
	1,785,146	0	0	103,481	1,888,627
Support services:					
Student services	73,247	0	0	7,382	80,629
Instructional staff services	47,723	0	0	0	47,723
Administration services	440,965	0	0	0	440,965
Operation and maintenance of plant services	219,552	13,747	0	48,914	282,213
Transportation services	100,356	0	0	0	100,356
	881,843	13,747	0	56,296	951,886
Other expenditures:					
Facilities acquisitions	0	24,956	75,060	0	100,016
AEA flowthrough	91,789	0	0	0	91,789
	91,789	24,956	75,060	0	191,805
Total expenditures	2,758,778	38,703	75,060	159,777	3,032,318
Net change in fund balances	(196,001)	116,275	90,835	(6,656)	4,453
Fund balance beginning of year	483,095	79,748	127,066	201,938	891,847
Fund balance end of year	\$ 287,094	196,023	217,901	195,282	896,300

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 4,453

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 94,566	
Depreciation expense	<u>(109,340)</u>	(14,774)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		(34,125)
--	--	----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement payable	\$ 35,220	
State aid overpayment payable	28,177	
ISEBA assessment payable	<u>18,244</u>	81,641

Changes in net assets of governmental activities (page 14)	\$ 37,195	
--	-----------	--

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 72,493
Receivables:	
Accounts	2,091
Inventories	1,004
Capital assets, net of accumulated depreciation (Note 5)	18,930
TOTAL ASSETS	<u>94,518</u>
LIABILITIES	
Interfund payable	32,333
Accounts payable	1,340
Salaries and benefits payable	364
TOTAL LIABILITIES	<u>34,037</u>
NET ASSETS	
Investment in capital assets, net of related debt	18,930
Unrestricted	41,551
TOTAL NET ASSETS	<u>\$ 60,481</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 43,267
TOTAL OPERATING REVENUES	<u>43,267</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services:	
Supplies	8,423
Non-instructional programs:	
Food service operations:	
Salaries	55,904
Benefits	8,154
Services	3,505
Supplies	82,057
Depreciation	2,720
Other	55
TOTAL OPERATING EXPENSES	<u>160,818</u>
OPERATING LOSS	<u>(117,551)</u>
NON-OPERATING REVENUES:	
State sources	17,865
Federal sources	79,744
Interest income	191
TOTAL NON-OPERATING REVENUES	<u>97,800</u>
Change in net assets before capital contributions	(19,751)
Capital contributions	<u>7,063</u>
Change in net assets	(12,688)
Net assets beginning of year	<u>73,169</u>
Net assets end of year	<u><u>\$ 60,481</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 46,087
Cash received from miscellaneous sources	1,134
Cash payments to employees for services	(66,385)
Cash payments to suppliers for goods or services	(86,728)
Net cash used in operating activities	<u>(105,892)</u>
Cash flows from non-capital financing activities:	
Transfer from General Fund	23,801
State grants received	17,865
Federal grants received	69,231
Net cash provided by non-capital financing activities	<u>110,897</u>
Cash flows from investing activities:	
Interest on investments	191
Net cash provided by investing activities	<u>191</u>
Net increase in cash and cash equivalents	5,196
Cash and cash equivalents at beginning of year	<u>67,297</u>
Cash and cash equivalents at end of year	<u>\$ 72,493</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (117,551)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	7,356
Depreciation	2,720
Increase in inventories	(126)
Decrease in accounts receivable	3,954
Increase in accounts payable	82
Decrease in salaries and benefits payable	(2,327)
Net cash used in operating activities	<u>\$ (105,892)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 72,493</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$7,356.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



HAMBURG COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Hamburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Hamburg, Iowa, and the predominate agricultural territory in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Hamburg Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Hamburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fremont County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for resources used to acquire equipment and capital facility improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated for Special Purposes by the Board - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balance is the balance remaining from the Bunker Inheritance Donation of \$49,523.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction functional area exceeded the amounts budgeted and the District.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

**(3) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects	General Fund	\$ 975
Capital Projects	School Nutrition	8,934
General	School Nutrition	23,399
Total		<u>\$ 33,308</u>

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 480,672	9,741	479,000	8,444
2006-07A	6/28/06	6/28/07	176,754	55	177,000	45
Total			<u>\$ 657,426</u>	<u>9,796</u>	<u>656,000</u>	<u>8,489</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2006.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 42,707	0	0	42,707
Total capital assets not being depreciated	42,707	0	0	42,707
Capital assets being depreciated:				
Buildings	1,935,874	75,092	0	2,010,966
Land improvements	255,991	0	0	255,991
Machinery and equipment	965,998	19,474	0	985,472
Total capital assets being depreciated	3,157,863	94,566	0	3,252,429
Less accumulated depreciation for:				
Buildings	1,194,593	49,633	0	1,244,226
Land improvements	169,108	6,428	0	175,536
Machinery and equipment	792,704	53,279	0	845,983
Total accumulated depreciation	2,156,405	109,340	0	2,265,745
Total capital assets being depreciated, net	1,001,458	(14,774)	0	986,684
Governmental activities capital assets, net	\$ 1,044,165	(14,774)	0	1,029,391
Business-type activities:				
Machinery and equipment	\$ 45,876	7,063	0	52,939
Less accumulated depreciation	31,289	2,720	0	34,009
Business-type activities capital assets, net	\$ 14,587	4,343	0	18,930



Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 28,119
Special	3,367
Other	2,936

Support services:

Student	283
Instructional staff	667
Administration	1,688
Operation and maintenance of plant	518
Transportation	13,657

Unallocated depreciation

Total governmental activities depreciation expense

51,235
58,105
<u>\$ 109,340</u>

Business-type activities:

Food services

Total business-type activities depreciation expense

\$ 2,720
<u>\$ 2,720</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 183,046	0	35,220	147,826	25,322
State Aid Overpayment	28,177	0	28,177	0	0
Total	<u>\$ 211,223</u>	<u>0</u>	<u>63,397</u>	<u>147,826</u>	<u>25,322</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay health insurance benefits until the retiree reaches age sixty-five. A liability has been recorded in the Statement of Net Assets for government-wide activities for these early retirement benefits. Early retirement benefits paid during the year ended June 30, 2006, totaled \$35,220.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$89,989, \$84,556 and \$87,476 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The Hamburg Community School District was a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$18,244, of which \$9,122 was paid with the 2004-2005 premiums and \$9,122 was paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$20,664.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Hamburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$91,789 for

the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the instruction functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION



HAMBURG COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 1,651,604	43,458	1,695,062	1,636,024	1,636,024	59,038
State sources	1,285,828	17,865	1,303,693	1,320,753	1,320,753	(17,060)
Federal sources	99,339	79,744	179,083	230,450	230,450	(51,367)
Total revenues	3,036,771	141,067	3,177,838	3,187,227	3,187,227	(9,389)
Expenditures:						
Instruction	1,888,627	0	1,888,627	1,740,359	1,740,359	(148,268)
Support services	951,886	8,423	960,309	966,561	966,561	6,252
Non-instructional programs	0	152,395	152,395	340,000	340,000	187,605
Other expenditures	191,805	0	191,805	434,841	434,841	243,036
Total expenditures	3,032,318	160,818	3,193,136	3,481,761	3,481,761	288,625
Excess(deficiency) of revenues over(under) expenditures	4,453	(19,751)	(15,298)	(294,534)	(294,534)	279,236
Other financing sources, net	0	7,063	7,063	0	0	7,063
Excess(deficiency) of revenues and other financing sources over(under) expenditures	4,453	(12,688)	(8,235)	(294,534)	(294,534)	286,299
Balance beginning of year	891,847	73,169	965,016	1,075,332	1,075,332	(110,316)
Balance end of year	\$ 896,300	60,481	956,781	780,798	780,798	175,983

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the instruction function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION





HAMBURG COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Expendable Trust	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 81,212	43,637	69,649	194,498
Receivables:				
Property tax				
Delinquent	1,372	0	0	1,372
Succeeding year	20,000	0	0	20,000
Accounts	0	236	0	236
TOTAL ASSETS	\$ 102,584	43,873	69,649	216,106
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 416	408	0	824
Deferred revenue:				
Succeeding year property tax	20,000	0	0	20,000
	20,416	408	0	20,824
Fund equity:				
Fund balances:				
Unreserved, undesignated	82,168	43,465	69,649	195,282
TOTAL LIABILITIES AND FUND EQUITY	\$ 102,584	43,873	69,649	216,106

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Nonmajor Special Revenue Funds			Total Nonmajor Special Revenue Funds
	Manage- ment	Student Activity	Expendable Trust	
REVENUES:				
Local sources:				
Local tax	\$ 74,975	0	0	74,975
Other	4,187	73,689	270	78,146
TOTAL REVENUES	79,162	73,689	270	153,121
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	24,916	0	6,950	31,866
Other instruction	0	71,615	0	71,615
Support services:				
Student services	7,382	0	0	7,382
Operation and maintenance of plant services	47,956	958	0	48,914
TOTAL EXPENDITURES	80,254	72,573	6,950	159,777
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,092)	1,116	(6,680)	(6,656)
FUND BALANCE BEGINNING OF YEAR	83,260	42,349	76,329	201,938
FUND BALANCE END OF YEAR	\$ 82,168	43,465	69,649	195,282

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 105	125	2,027	(1,797)
Drama	774	1,585	1,698	661
Chorus	1,147	1,552	2,010	689
Band	1,371	200	130	1,441
HS Athletics	9,568	23,385	20,669	12,284
HS Athletics Resale	1,328	4,602	5,312	618
JH Athletics	(31)	1,051	1,807	(787)
HS Cheerleading	(484)	5,171	502	4,185
Art	68	0	0	68
Class of 2003	(762)	102	0	(660)
Class of 2004	600	0	0	600
Class of 2005	1,512	35	250	1,297
Class of 2006	7,786	1,352	8,969	169
Class of 2007	3,142	19,429	15,717	6,854
Class of 2008	1,632	864	255	2,241
Class of 2009	547	666	118	1,095
Class of 2010	605	381	50	936
Class of 2011	0	182	0	182
Health Careers	57	0	0	57
Student Council	359	658	1,038	(21)
Yearbook	1,568	6,530	5,653	2,445
Betterment	3,152	2,942	3,450	2,644
Elementary Activity	4,362	1,431	1,108	4,685
Elementary Music Activity	3,275	504	805	2,974
Elementary Yearbook	440	942	941	441
Sally Ashler Memorial	228	0	64	164
Total	\$ 42,349	73,689	72,573	43,465

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax	\$	1,435,744	1,444,051	1,304,312	1,207,375
Tuition		75,210	85,975	61,534	64,773
Other		140,650	237,461	141,160	135,680
State sources		1,285,828	1,293,041	1,306,026	1,224,798
Federal sources		99,339	244,371	194,325	118,862
Total	\$	3,036,771	3,304,899	3,007,357	2,751,488
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	\$	1,223,556	1,106,577	1,169,307	1,088,428
Special instruction		329,945	423,240	341,609	332,315
Other instruction		335,126	251,490	162,934	164,912
Support services:					
Student services		80,629	85,886	93,353	92,193
Instructional staff services		47,723	42,790	40,715	32,077
Administration services		440,965	416,633	404,342	362,906
Operation and maintenance of plant services		282,213	335,478	236,005	211,491
Transportation services		100,356	67,945	84,713	115,625
Central support services		0	4,145	7,824	2,124
Non-instructional programs		0	7,800	7,750	0
Other expenditures:					
Facilities acquisitions		100,016	259,022	422,899	146,429
Long-term debt:					
Principal		0	0	0	40,546
Interest and fiscal charges		0	0	0	1,265
AEA flow-through		91,789	91,840	94,675	95,222
Total	\$	3,032,318	3,092,846	3,066,126	2,685,533

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Hamburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hamburg Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 26, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

#### Compliance and Other Matters

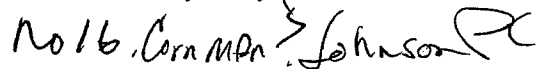
As part of obtaining reasonable assurance about whether Hamburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Hamburg Community School District and other parties to whom Hamburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hamburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

July 26, 2006

HAMBURG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - New policies and procedures have been set up to strengthen the internal control structure of the school accounting to include cash receipts listing, bank deposits and the posting of cash receipts to the cash journal.

Beginning in September of 2006 a procedure was implemented to restructure how monies would be received and documented, deposited and then posted. All monies received for school lunches, any extra-curricular activity(including, but not limited to, athletic functions, school plays, ect.), book fees and tuition fees are collected by the Elementary and Secondary school secretaries. The school secretaries receipt the money and physically make those deposits. The deposit slips are then provided to the Business Manager to post to the cash journal. This procedure has relieved a lot of time from the Business Manager and also strengthens the internal controls of the school accounting system. This procedure has been working very well since its implementation.

Conclusion - Response accepted.

I-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We agree that we need to report the unclaimed property to the State Treasurer. We will make all the necessary steps to re-issue these funds to the State Treasurer. This will be completed by March 15, 2007.

Conclusion - Response accepted.

I-C-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.



Recommendation - The District has a policy in place for credit card usage and employee travel compensation. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements. In addition, the District should review procedures in place to ensure the proper detailed documentation will be available with reimbursements to employees.

Response - The Hamburg Community School District continues to have problems in the arena of credit cards. A discussion was held in January 2007 to cancel all credit cards to eliminate this problem. The business credit card with our local bank was cancelled on February 2, 2007 and the remaining credit cards to include Sam's Club, Wal-Mart, Menards and Home Depot will be cancelled by February 28, 2007. We will be keeping the Hamburg Market credit as it is needed quite frequently by our school lunch manager; however, we are limiting access to this credit and a memorandum is being sent to all school employees indicating these changes.

Conclusion - Response accepted.

- I-D-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response - We will implement this policy and be sure that any monies received for the hosting of district and regional events be deposited into the rent general ledger of the General Fund.

Conclusion - Response accepted.

- I-E-06 Graduated Class Accounts - We noted during our audit that the District has several past graduated class accounts in Student Activity Fund.

Recommendation - The old activity class accounts should be closed in the Student Activity Fund.

Response - Old class activity accounts will be closed. We will have this completed by February 28, 2007.

Conclusion - Response accepted.

- I-F-06 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will implement procedures to issue pre-numbered gate receipts for all activities.

Conclusion - Response accepted.

- I-G-06 Student Activity Fund - We noted during our audit that the Student Activity fund included a Betterment account. We also noted during our audit the recording of Box Top

donations in the Elementary account. In addition, interest earned in the Student Activity fund was not allocated among the accounts that earned the interest.

Recommendation - The revenues and expenditures made from the Betterment account appear to be more appropriately accounted for in an Agency fund. The District should review the transactions in this account and make the necessary transfers. The Box Top donations which are made of school supplies, would be more appropriately be handled in the General fund. The interest needs to be allocated during the year to the accounts earning the interest.

Response - We will make the necessary changes.

Conclusion - Response accepted.

HAMBURG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the instruction function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Effective immediately we have begun working on a line-item budget for all general ledger accounting. The line-item budget will be completed by March 31, 2007 and will help us track any over expenditures. We have not had a line-item budget in place for the last few years, but we know this is a necessary function to maintain good accounting. In the future, we will amend the budget.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - Board minutes have been late for publication due to the transition of Board Secretaries. We are back on track and the board minutes are now published in the required time frame.

Conclusion - Response accepted.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-06 Notice of Public Hearing for Public Improvement - The District awarded a contract for capital improvements in excess of \$25,000 and did not conduct a public hearing as required by Chapter 73A.2 of the Code of Iowa.

Recommendation - Before entering into any contract for public improvements where the net cost is \$25,000 or more, the District is required to hold a public hearing. The District should review Chapter 73A.2 of the Code of Iowa for requirements when entering into contracts for fire door capital improvements.

Response - The recommendation is noted and will be followed if this instance should present itself again.

Conclusion - Response accepted.

II-K-06 Financial Condition - The District had several deficit accounts in the Special Revenue Fund, Student Activity Fund.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - The Superintendent and Business Manager will be reviewing all the deficit accounts. The line item budget that is being prepared should prevent this from happening in the future.

Conclusion - Response accepted: